NILES DISTRICT LIBRARY

NILES, MICHIGAN

FINANCIAL STATEMENTS

Year ended September 30, 2006

Michigan Department of Treasury
496 (02/06)

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type	Local Unit Name	County
☐County ☐City ☐Twp ☐Village ☒Other	Niles District Library	Berrien

Fiscal Year End	Opinion Date	Date Audit Report Submitted to State
September 30, 2006	November 10, 2006	March 28, 2007

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

	YES	NO	**Check each applicable box below.** (See instructions for further detail.)
1.	☒	☐	All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2.	☒	☐	There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3.	☒	☐	The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4.	☒	☐	The local unit has adopted a budget for all required funds.
5.	☒	☐	A public hearing on the budget was held in accordance with State statute.
6.	☒	☐	The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7.	☒	☐	The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8.	☒	☐	The local unit only holds deposits/investments that comply with statutory requirements.
9.	☒	☐	The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan,* as revised (see Appendix H of Bulletin).
10.	☒	☐	There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11.	☒	☐	The local unit is free of repeated comments from previous years.
12.	☒	☐	The audit opinion is UNQUALIFIED.
13.	☒	☐	The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14.	☒	☐	The board or council approves all invoices prior to payment as required by charter or statute.
15.	☒	☐	To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)
Financial Statements	☒	
The letter of Comments and Recommendations	☒	
Other (Describe)	☐	

Certified Public Accountant (Firm Name)	Telephone Number
Scarpone & Co., P.C., CPA's	269-684-5100

Street Address	City	State	Zip
20 N. Second St., P.O. Box 1146	Niles	Mi	49120

Authorizing CPA Signature	Printed Name	License Number
James F. Scarpone, CPA	James F. Scarpone	11507

NILES DISTRICT LIBRARY

NILES, MICHIGAN

TABLE OF CONTENTS

ITEM	PAGE NUMBER
BOARD OF TRUSTEES	1
INDEPENDENT AUDITORS' REPORT	2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-4
BASIC FINANCIAL STATEMENTS:	
Governmental Funds Balance Sheet and Statement of Net Assets	5
Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances and Statement of Activities	6
Notes to Basic Financial Statements	7-13
REQUIRED SUPPLEMENTAL INFORMATION:	
Budgetary Comparison Schedule - Operating Fund	14
OTHER SUPPLEMENTAL INFORMATION:	
Combining Balance Sheets - Other Funds	15
Combining Statement of Revenues, Expenditures and Changes in Fund Balance - Other Funds	16
BUILDING AUTHORITY BONDS: Schedule of Principal and Interest Requirements	17

NILES DISTRICT LIBRARY

NILES, MICHIGAN

BOARD OF TRUSTEES

Rolla Baumgartner	-	**President**
Sally Ginter	-	**Vice-President**
Gloria Cooper	-	**Secretary**
Shari Weber	-	**Treasurer**
Nancy McCreedy	-	**Trustee**
Mary Bryant	-	**Trustee**
William Landgraf	-	**Trustee**
Terry Merica	-	**Trustee**

SCARPONE & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

November 10, 2006

Members of the Library Board of Trustees
Niles District Library
Niles, Michigan

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying basic financial statements of Niles District Library as of and for the year ended September 30, 2006, as listed in the foregoing table of contents. These basic financial statements are the responsibility of the management of Niles District Library. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Niles District Library as of September 30, 2006, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles.

The management's discussion and analysis and the required supplemental information identified in the table of contents are not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying other supplemental information, as listed in the foregoing table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements of Niles District Library. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Scarpone & Co., P.C.

20 NORTH SECOND STREET • NILES, MICHIGAN 49120 • TELEPHONE 269-684-5100 • FAX 269-684-5102 • 415 MAIN STREET • ST. JOSEPH, MICHIGAN 49085 • TELEPHONE 269-983-7100

NILES DISTRICT LIBRARY

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2006

The Library is reporting financial statements this year that meet the requirements of Governmental Accounting Standards Board Statement 34 (GASB 34). This is the third year that these requirements have been applicable. The two primary changes involved in meeting these requirements is the addition of a Management's Discussion and Analysis (MD&A) and the reporting of all capital assets and depreciation of same. A capital asset appraisal was completed by Mid-America Appraisals in March, 2004, the results of which are reflected in this report.

Overall Financial Position

The financial statements indicate that the Library has cash of $593,058 and $619,586 in investments (certificates of deposit), for a total of $1,212,644 in assets at the close of the fiscal year, compared to $1,208,163 at the close of the previous fiscal year. Revenues for the fiscal year exceeded expenditures by $11,170. The Library's reserve cash and investments are more than adequate to assure the financial stability of the Library.

Operating Fund Budget vs. Actual

Expenditures and revenues in the operating fund both ended close to the amounts in the annual budget. Expenditures were slightly lower, and revenues slightly higher than projected.

	Budgeted	Actual	Percent of Difference
Expenditures	$ 1,135,602	$ 1,123,618	(1.0)
Revenues	1,047,294	1,085,324	3.6

Influencing Factors

Changes in investments during the previous fiscal year resulted in increased revenue from interest income in the fiscal year 2006. Revenue from interest income in the operating budget increased by 110% from fiscal year 2005.

Utilities expenditures in the fiscal year 2006 were reduced by 6% in comparison to fiscal year 2005. This was the result of a mild wiuter, combined with better utilization of the Library's computerized thermostat system. The thermostat was adjusted at night and during other times when the Library is not occupied.

Despite efforts to optimize investments and limit expenditures, it was necessary to reduce the amount spent on our core service of providing books to patrons. We spent almost $3,000 less on books in the fiscal year 2006 than in the fiscal year 2005. This is a reduction of 2.77%.

Revenues

The Library's primary revenue sources continue to be property tax and penal fines. In fiscal year 2006 these two sources accounted for 84% of the Library's revenues. Property tax revenues increased a healthy 6% while penal fines increased 4% from fiscal year 2005.

Overall revenues from all sources in fiscal year 2006 were 8% higher than fiscal year 2005.

Some revenues received in the fiscal year were unusual and should not be anticipated in coming years. The Library received $7,172 in grants from the Michigan Humanities Council. Gifts and memorials were unusually high due to contributions to two memorials. The Friends donation of $6,750 cannot be expected on a regular basis.

Expenditures

Personnel expenses continue to account for the largest portion of the Library's budget. In fiscal year 2006 wages and benefits accounted for 61% of the Library's expenses. Personnel expenses for fiscal year 2006 increased 2% from fiscal year 2005.

The Library purchased several significant items during the fiscal year. Two public-access copiers, which had previously been leased, were purchased. A display unit for new books in the children's department was purchased and slip covers for ten chairs were purchased.

In fiscal year 2006, overall expenditures in the operating fund were down 2.1% from fiscal year 2005.

Debt

The Library continues to make semi-annual payments on a 1998 Building Authority Bond, which is scheduled to be repaid by the year 2018. The Library has no other significant indebtedness.

Contacting the Library's Financial Management

This financial report is designed to provide our citizens and taxpayers with a general overview of the Library's finances. If you have any questions about this report or need additional information, contact the Director, Niles District Library.

NILES DISTRICT LIBRARY

GOVERNMENTAL FUNDS BALANCE SHEET
AND
STATEMENT OF NET ASSETS

September 30, 2006

	Operating Fund	Other Funds	Total	Adjustments (Note J)	Statement of Net Assets
ASSETS					
Cash and cash equivalents	$ 468,825	$ 124,233	$ 593,058	$ -	$ 593,058
Investments	311,842	307,744	619,586	-	619,586
Interest receivable	4,435	6,180	10,615	-	10,615
Taxes receivable	3,156	-	3,156	-	3,156
Capital assets, net of accumulated depreciation	-	-	-	1,785,918	1,785,918
TOTAL ASSETS	$ 788,258	$ 438,157	$ 1,226,415	$ 1,785,918	$ 3,012,333
LIABILITIES					
Accrued payroll, taxes and withholdings	$ 26,268	$ -	$ 26,268	$ -	$ 26,268
Accrued interest	-	-	-	11,329	11,329
Long-term liabilities:					
Bonds payable	-	-	-	475,000	475,000
Accumulated employee benefits	-	-	-	15,505	15,505
	26,268	-	26,268	501,834	528,102
FUND BALANCES/NET ASSETS					
Fund balances, reserved, reported in					
Reserve fund	-	219,346	219,346	(219,346)	-
Legacy fund	-	5,142	5,142	(5,142)	-
Capital projects	-	213,669	213,669	(213,669)	-
Fund balances, unreserved	761,990	-	761,990	(761,990)	-
	761,990	438,157	1,200,147	(1,200,147)	-
TOTAL LIABILITIES AND FUND BALANCES	$ 788,258	$ 438,157	$ 1,226,415		
Net Assets					
Invested in capital assets					1,299,589
Unrestricted					1,184,642
TOTAL NET ASSETS					$ 2,484,231

See accompanying notes to basic financial statements.

NILES DISTRICT LIBRARY

GOVERNMENTAL FUNDS STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES AND STATEMENT OF ACTIVITIES

For the year ended September 30, 2006

	Operating Fund	Other Funds	Total	Adjustments (Note J)	Statement of Activities
REVENUES:					
Local taxes	$ 703,117	$ -	$ 703,117	$ -	$ 703,117
Penal fines	249,420	-	249,420	-	249,420
State-shared revenues	44,364	-	44,364	-	44,364
Interest and dividends	30,320	17,606	47,926	-	47,926
Charges for services	21,188	-	21,188	-	21,188
Contributions and gifts	15,945	-	15,945	-	15,945
Copier revenues	11,524	-	11,524	-	11,524
Frazee Trust	-	31,858	31,858	-	31,858
Grant income	7,172	-	7,172	-	7,172
Community room	1,600	-	1,600	-	1,600
Miscellaneous	674	-	674	-	674
Total Revenues	1,085,324	49,464	1,134,788	-	1,134,788
EXPENDITURES:					
Salaries	535,082	-	535,082	4,983	540,065
Payroll taxes and employee benefits	155,465	-	155,465	-	155,465
Professional fees	24,930	-	24,930	-	24,930
Building maintenance	56,414	-	56,414	-	56,414
Repairs and maintenance	18,241	-	18,241	-	18,241
Library materials	123,220	-	123,220	-	123,220
Supplies	15,194	-	15,194	-	15,194
Utilities	47,730	-	47,730	-	47,730
Communications	9,761	-	9,761	-	9,761
Postage	4,470	-	4,470	-	4,470
Programming	14,234	-	14,234	-	14,234
Refunds	4,917	-	4,917	-	4,917
Staff development	8,622	-	8,622	-	8,622
Copy machine rental and supplies	16,296	-	16,296	-	16,296
Insurance	17,057	-	17,057	-	17,057
Capital outlay	13,424	-	13,424	(2,602)	10,822
Bond processing and handling fees	300	-	300	-	300
Debt service	54,082	-	54,082	(30,712)	23,370
Miscellaneous	4,179	-	4,179	-	4,179
Depreciation	-	-	-	64,533	64,533
Total Expenditures	1,123,618	-	1,123,618	36,202	1,159,820
Excess (Deficiency) of Revenues Over (Under) Expenditures	(38,294)	49,464	11,170	(36,202)	(25,032)
OTHER FINANCING SOURCES (USES)					
Transfers In (Out)	31,858	(31,858)	-		
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(6,436)	17,606	11,170		
Change in Net Assets					(25,032)
FUND BALANCES/NET ASSETS					
Beginning of Year	768,426	420,551	1,188,977	1,320,286	2,509,263
End of Year	$ 761,990	$ 438,157	$ 1,200,147	$ 1,284,084	$ 2,484,231

See accompanying notes to basic financial statements.

NILES DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS

For the year ended September 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of Niles District Library ("Library") conform to accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. A summary of the significant policies adopted by the Library are as follows:

REPORTING ENTITY:

The Library's reporting entity includes all activities related to the operation of the Niles District Library. The Library receives funding from local and state government sources and must comply with the requirements of these funding source entities. However, the Library is not included in any other governmental "reporting entity" as defined by the GASB pronouncement. In addition, there are no component units as defined by GASB which are included in the Library's reporting entity.

BASIS OF PRESENTATION:

Generally accepted accounting principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: Government-Wide Financial Statements (i.e., the Statement of Net Assets and the Statement of Activities) and Fund Financial Statements. The government-wide and fund financial statements are combined, with a reconciliation shown between them.

The Governmental Funds Balance Sheet and Statement of Net Assets and Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances and Statement of Activities combines information about the reporting government as a whole and funds statements to report its financial position and the results of its operations.

The Operating Fund is the only major individual governmental fund. For fund financial statements, the accounts of the Library are organized on the basis of funds each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise each fund's assets, liabilities, fund balances, revenues and expenditures. The following is a description of the funds included in the accompanying basic financial statements:

Operating Fund - The Operating Fund accounts for revenues and expenditures of the Library not required to be accounted for in other funds.

Reserve Fund - The Reserve Fund accounts for the accumulation of resources related to ensuring uninterrupted Library service.

Legacy Fund - The Legacy Fund accounts for the revenues and expenditures related to particular functions or activities of the Library, including income from the Frazee Trust Fund Endowment.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED:

Debt Service Fund - The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Capital Projects Fund - The Capital Projects Fund accounts for the financial resources to be used for the acquisition of major capital expenditures.

BASIS OF ACCOUNTING:

The government-wide statements (the Statement of Net Assets and the Statement of Activities) are prepared using the economic resources measurement focus and the accrual basis of accounting. Fund financial statements (the Governmental Funds Balance Sheet and Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances) are prepared using the modified accrual basis of accounting. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

BUDGETS AND BUDGETARY ACCOUNTING:

The Library Board of Trustees annually adopts a budget for each of its funds. The budget is adopted on the basis of accounting described above. Budgeted amounts are as originally adopted or amended by the Board of Trustees.

CASH AND CASH EQUIVALENTS:

Cash and cash equivalents are recorded at cost and include cash investments with an original maturity of three months or less.

CAPITAL ASSETS:

The accounting treatment over property, plant, and equipment (capital assets) depends on whether the assets are reported in the government-wide or fund financial statements.

Government-wide Statements

In the government-wide financial statements capital assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated capital assets, which are recorded at their estimated fair value at the date of donation.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONCLUDED:

CAPITAL ASSETS-CONCLUDED:

Leasehold improvements	50 years
Furniture and equipment	10-15 years
Computer equipment	5 years

The minimum capitalization threshold is any item with a total cost greater than $2,500.

Fund Financial Statements

In the fund finaucial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

COMPENSATED ABSENCES:

It is the Library's policy to permit employees to accumulate earued but unused sick pay (to a maximum of 1,000 hours) and vacation pay benefits (to a maximum of 75 hours). There is no accrued liability for unpaid accumulated sick leave since the Library's policy does not allow for the payment of any amouuts when employees separate from service with the Library. All vacation pay is accrued when incurred in the government-wide financial statements.

LOCAL TAXES:

Property taxes are levied for Library operating purposes against properties within the Library's service area at a rate of 1.4842 mills.

ESTIMATES:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates aud assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

FUND BALANCES:

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans and are subject to change.

NOTE B - CASH AND CASH EQUIVALENTS:

Cash and cash equivalents consisted of the following at September 30, 2006:

Petty cash	$	100
Deposits in financial institutions		592,958
	$	593,058

NOTE B - CASH AND CASH EQUIVALENTS - CONCLUDED:

The above deposits in financial institutions of $593,058, were reflected in the accounts of the Library's financial institutions (without recognition of checks written but not yet cleared, or of deposits in transit) at $586,261. Of that amount, approximately $234,434 was covered by federal depository insurance coverage, approximately $66,988 was held in a local units of government trust account, $250,000 was covered by private depository insurance coverage, and $34,839 was uninsured and uncollateralized.

NOTE C - INVESTMENTS:

Investments at September 30, 2006 consisted of certificates of deposit in financial institutions of $619,586. Of this amount, approximately $354,255 was covered by federal depository insurance coverage and approximately $265,331 was uninsured and uncollateralized.

NOTE D - CAPITAL ASSETS:

Capital asset activity for the Library's Governmental activities for the year ended September 30, 2006 was as follows:

	Balance September 30, 2005	Additions	Deletions	Balance September 30, 2006
Capital assets being depreciated:				
Leasehold improvements	$ 1,979,981	$ -	$ -	$ 1,979,981
Furniture and equipment	196,110	2,602	-	198,712
Computer equipment	113,267	-	-	113,267
	2,289,358	2,602	-	2,291,960
Accumulated depreciation:				
Leasehold improvements	291,117	39,600	-	330,717
Furniture and equipment	63,842	13,680	-	77,522
Computer equipment	86,550	11,253	-	97,803
	441,509	64,533	-	506,042
Net capital assets	$ 1,847,849	$ (61,931)	$ -	$ 1,785,918

NOTE E - LONG-TERM DEBT:

General long-term debt consisted of the following at September 30, 2006:

4.75% - 4.80% 1998 Building Authority Bonds, with annual payments of $30,000 to $50,000 and semi-annual interest payments, final maturity April, 2018.	$ 475,000

NILES DISTRICT LIBRARY

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended September 30, 2006

NOTE E - LONG-TERM DEBT-CONCLUDED:

The principal reductions of general long-term debt for the years ending September 30th, are as follows:

Year Ended		Amount Due
2007	$	30,000
2008		30,000
2009		35,000
2010		35,000
2011		35,000
Thereafter		310,000
Total	$	475,000

The following is a summary of the changes in general long-term debt for the year ended September 30, 2006:

	Balance September 30, 2005	Additions	Deductions	Balance September 30, 2006
Bonds payable	$ 505,000	$ -	$ 30,000	$ 475,000

NOTE F - FRAZEE TRUST FUND ENDOWMENT:

The Library is the sole beneficiary of the Carl H. and Faye W. Frazee Niles Community Library Foundation Trust established in 1990. Wells Fargo Bank Indiana, N.A. is the trustee of the Foundation, and manages the income and distributions of the endowment. The Foundation requires all income from the endowment to be distributed to the Legacy Fund of the Library. Distributions to the Library amounted to $31,858 for the year ended September 30, 2006.

NOTE G - PENSION PLAN:

The Niles District Library participated in the City of Niles defined benefit pension plan until October 1, 2002. Niles District Library had no fiduciary responsibility for the administration of the plan.

Effective October 1, 2002, current employees of the Library were no longer considered to be employees of the City of Niles. Consequently, the Library established a pension plan for its employees administered through the Municipal Employees' Retirement System of Michigan (MERS) in a plan with a similar benefit structure to the City of Niles plan. Under this arrangement, the Library assumed the benefit obligation (both past and future) for the service rendered by these employees and the City transferred any associated plan assets attributable to Library employees into the MERS plan. Any retired and "vested-deferred" former employees remained with the City of Niles plan.

For the year ended September 30, 2006, the employer contributions to the plan were approximately 4.75% of reported wages and totaled $25,396.

NOTE H - ACCUMULATED EMPLOYEE BENEFITS:

Accumulated employee benefits represent the estimated liability to be paid employees under the Library's vacation pay policy. Under the Library's policy, employees earn vacation time based on time of service with the Library. The estimated liability as of September 30, 2006 is estimated to approximate $15,505.

NOTE I - RISK MANAGEMENT:

The Library is exposed to various risks of loss related to torts; theft of damage to and destruction of assets; errors and omissions; and natural disasters. The Library maintains commercial insurance to insure potential significant losses. There have been no significant reductions in insurance coverage by the Library for the year ended September 30, 2006.

NOTE J - ADJUSTMENTS:

Amounts reported in the Statement of Net Assets are different from the Governmental Funds Balance Sheet due to the following adjustments:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds		$ 1,785,918
Interest payments on long-term liabilities are not due and payable in the current period and are not reported in the funds		(11,329)
Long-term liabilities are not due and payable in the current period and are therefore not reported in the governmental funds:		
Bonds Payable		(475,000)
Accrued Employee Benefits		(15,505)
		$ 1,284,084

Amounts reported for governmental activities on the Statement of Activities are different from the Governmental Funds Statements of Revenues, Expenditures and Changes in Fund Balances as follows:

Governmental funds report capital outlays as expenditures. However, on the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current year:		
Depreciation	$ (64,533)	
Capital outlay-over threshold	2,602	$ (61,931)
Interest payments on long-term liabilities are not due and payable in the current period and are not reported in the governmental funds, but the accrual is a liability on the statement of net assets.		712
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets. This is the amount of repayments reported as expenditures in the governmental funds.		30,000
Accrual for long-term employee benefits reported as an expenditure in the Statement of Activities, but not in the fund statements.		(4,983)
		$ (36,202)

REQUIRED SUPPLEMENTARY INFORMATION

NILES DISTRICT LIBRARY

REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE

OPERATING FUND

For the year ended September 30, 2006

	Budgeted Amounts Original	Budgeted Amounts Final	Actual	Variance Favorable (Unfavorable)
REVENUES:				
Local taxes	$ 689,000	$ 690,000	$ 703,117	$ 13,117
Penal fines	245,500	245,500	249,420	3,920
State-shared revenues	45,747	45,747	44,364	(1,383)
Interest and dividends	13,300	13,300	30,320	17,020
Charges for services	14,200	19,300	21,188	1,888
Contributions and gifts	8,500	12,000	15,945	3,945
Copier revenues	12,500	12,500	11,524	(976)
Grant income	-	6,697	7,172	475
Community room	1,000	1,250	1,600	350
Miscellaneous	3,500	1,000	674	(326)
	1,033,247	1,047,294	1,085,324	38,030
EXPENDITURES:				
Salaries	528,500	528,500	535,082	(6,582)
Payroll taxes and employee benefits	159,870	159,870	155,465	4,405
Professional fees	30,850	25,250	24,930	320
Building maintenance	54,000	54,000	56,414	(2,414)
Repairs and maintenance	17,600	17,600	18,241	(641)
Library materials	120,950	124,450	123,220	1,230
Supplies	14,500	15,000	15,194	(194)
Utilities	54,250	54,250	47,730	6,520
Communications	9,800	9,800	9,761	39
Postage	4,500	4,500	4,470	30
Programming	15,500	15,500	14,234	1,266
Refunds	8,000	8,000	4,917	3,083
Staff development	10,000	10,000	8,622	1,378
Copy machine rental and supplies	12,000	12,500	16,296	(3,796)
Insurance	17,000	17,000	17,057	-
Capital outlay	6,500	16,500	13,424	3,076
Debt service	49,382	54,382	54,382	-
Miscellaneous	10,500	8,500	4,179	4,321
	1,123,702	1,135,602	1,123,618	11,984
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(90,455)	(88,308)	(38,294)	50,014
OTHER FINANCING SOURCES:				
Operating transfers in	-	-	31,858	31,858
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(90,455)	(88,308)	(6,436)	81,872
FUND BALANCE, BEGINNING OF YEAR	768,426	768,426	768,426	-
FUND BALANCE, END OF YEAR	$ 677,971	$ 680,118	$ 761,990	$ 81,872

See accompanying notes to basic financial statements.

OTHER SUPPLEMENTAL INFORMATION

NILES DISTRICT LIBRARY

COMBINING BALANCE SHEETS

OTHER FUNDS

September 30, 2006

	Reserve Fund	Legacy Fund	Capital Projects	Total
ASSETS				
Cash and cash equivalents	$ 59,912	$ 5,142	$ 59,179	$ 124,233
Interest receivable	1,690	-	4,490	6,180
Investments	157,744	-	150,000	307,744
TOTAL ASSETS	$ 219,346	$ 5,142	$ 213,669	$ 438,157
FUND BALANCES				
FUND BALANCES:				
Fund Balauces:				
Reserved	219,346	5,142	213,669	438,157
FUND BALANCES	$ 219,346	$ 5,142	$ 213,669	$ 438,157

See accompanying notes to basic financial statements.

NILES DISTRICT LIBRARY

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

OTHER FUNDS

For the year ended September 30, 2006

	Reserve Fund	Legacy Fund	Capital Projects Fund	Total
REVENUES:				
Interest and dividends	$ 9,828	$ 35	$ 7,743	$ 17,606
Frazee Trust	-	31,858	-	31,858
	9,828	31,893	7,743	49,464
EXPENDITURES:				
Miscellaneous	-	-	-	-
EXCESS OF REVENUES OVER EXPENDITURES	9,828	31,893	7,743	49,464
OTHER FINANCING USES:				
Operating transfers out	-	(31,858)		(31,858)
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING USES	9,828	35	7,743	17,606
FUND BALANCES, BEGINNING OF YEAR	209,518	5,107	205,926	420,551
FUND BALANCES, END OF YEAR	$ 219,346	$ 5,142	$ 213,669	$ 438,157

See accompanying notes to basic financial statements.

NILES DISTRICT LIBRARY

1998 BUILDING AUTHORITY BONDS

SCHEDULE OF PRINCIPAL AND INTEREST REQUIREMENTS

For the year ended September 30, 2006

Year Ending September 30,	Principal April 1	Interest Requirements April 1	Interest Requirements October 1	Total Interest	Total Requirements
2007	$ 30,000	$ 11,329	$ 11,329	$ 22,658	$ 52,658
2008	30,000	10,616	10,616	21,232	51,232
2009	35,000	9,904	9,904	19,808	54,808
2010	35,000	9,073	9,072	18,145	53,145
2011	35,000	8,241	8,241	16,482	51,482
2012	40,000	7,410	7,410	14,820	54,820
2013	40,000	6,460	6,460	12,920	52,920
2014	40,000	5,510	5,510	11,020	51,020
2015	45,000	4,560	4,560	9,120	54,120
2016	45,000	3,480	3,480	6,960	51,960
2017	50,000	2,400	2,400	4,800	54,800
2018	50,000	1,200	1,200	2,400	52,400
	$ 475,000	$ 80,183	$ 80,182	$ 160,365	$ 635,365

See accompanying notes to basic financial statements.

SCARPONE & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

November 10, 2006

Members of the Board of Trustees
Niles District Library
620 E. Main Street
Niles, MI 49120

Dear Members of the Board:

In connection with our audit of the financial statements of Niles District Library for the year ended September 30, 2006, we offer the following comments and recommendations:

Improved Procedures Regarding Payroll Transactions

Currently, all components of employee payroll are recorded in the salaries expenditure account. In order to analyze and summarize the salaries accounts, it is necessary to look at all of the different components of withholdings that have been charged to the various accounts, i.e., withholdings for United Way, Aflac, pension and for health insurance.

We would recommend that these items, particularly the pension withholding be recorded to a liability account as the amounts are withheld from the payroll. Once the pension contribution payment is made, the employee portion can be charged against the liability and the employer contribution can be charged to an expense account.

Thc improved procedures are necessary in order to properly report and keep track of all employee withholding amounts that need to be paid to various third parties. This would also provide the Library with an easier method to track that all applicable pension withholdings have been reported and paid in a timely manner.

The employee withholding amounts for insurance should be charged as a reduction in the overall cost of the group term health insurance policy that the Library pays. This will provide an easier way to determine the portion of total premiums being paid by the Library versus the cost reduction that is passed on to the employees.

The current payroll service provides complete summaries that should facilitate the reporting of gross wages and all applicable withholding amounts versus recording the net payroll and then the individual components to salaries as well.

Improved Procedures Regarding Financial Reports

Internally there should be procedures in place to ensure that all internal reports prepared are in balance on a monthly basis. Some discrepancies appeared on the September 30, 2006 trial balance for the operating fund which was out of balance. This may have been caused by the account options chosen at the time it was printed or due to some other error in the reporting options of the program.

20 NORTH SECOND STREET • NILES, MICHIGAN 49120 • TELEPHONE 269-684-5100 • FAX 269-684-5107 •

We would be pleased to assist you in implementing the above recommendations, should you so desire. If you have any questions, or need additional information, please don't hesitate to contact us.

Sincerely,

SCARPONE & CO., P.C.

James F. Scarpone

James F. Scarpone, CFP, CPA, CVA